NEWMEX MINERALS INC.

2001

Annual Report

President's Message

Newmex has managed to generate a small profit this year due to the gold futures contract entered into last year with Hampton Court Resources Ltd. Although somewhat delayed, the necessary equipment is now on site and Hampton's daily gold production should generate the cash flow required to repay the existing commitments to Newmex as they come due.

As previously discussed, management has not been particularly satisfied with its failure to bring its mineral properties into production. Many projects have been evaluated and substantial effort and capital have been expended in an effort to add value to our existing mineral properties, however, the development of a cash flow generating operation has eluded us to date. Management and the board have discussed the current situation of Newmex and have concluded that the best course of action to maximize shareholder value is to maintain the company's existing mineral assets and to acquire Proprietary's existing holdings in Sulphur Corporation of Canada, Ltd.

Newmex would then focus primarily on the shipping and handling of sulphur through the facility being constructed at the Port of Prince Rupert, British Columbia. The Company's secondary objective would be to capitalize on any resurgence in mining activities driven by broader economic uncertainties or metal price increases or both. The conditional sale of SCC to Newmex was planned and announced last year however certain corporate and regulatory hurdles have arisen that have postponed the execution of the transaction as planned. We are working on overcoming the obstacles that have prevented the transaction from proceeding and are targeting the solicitation of Newmex shareholders approval on or before the companies fiscal 2002 Annual General Meeting.

Until the Sulphur transaction is proffered for Shareholder approval, Newmex will make every effort to optimize the values of its current mineral holdings and to pay it's overheads through financial transactions as opportunities and circumstances allow.

I would like to thank our shareholders their continued patience and interest.

Yours truly,

Peter J. Workum;
President

Management Discussion and Analysis
For the year ended September 30, 2001

Overview

Newmex Minerals Inc. is a Calgary bases junior mining company trading on the Canadian Venture Exchange under the symbol "NMM". Management has been working hard to bring one of its development properties into production. Additional drilling was undertaken on the Chocolate Peak claims to expand the resource. Through funding provided by Newmex's parent, investments were made in the shares of Golden Phoenix Minerals, Inc. and in a note to fund development/production from their Mineral Ridge project. A $150,000 flow through share financing was also completed to fund additional exploration on Newmex's Privateer property at Zeballos.

Business Strategy

Newmex's business strategy is defined and discussed in the President's Message accompanying these financial statements.

Recent Developments

The emergence of what appears to be a bull market in gold has generated substantial interest from shareholders and investors.

Hampton Court has, after numerous delays, commenced gold production at its Placer Mine in Ecuador. The resulting cash flow should enable them to meet their obligations to Newmex relating to the forward sale of its gold contract.

Golden Phoenix is in the process of raising private placement funds to initiate production at its Mineral Ridge property.

The acquisition of the Sulphur Corporation of Canada ("SCC") shares from Proprietary has been delayed but not abandoned. Certain corporate hurdles have arisen that are being addressed and once complete, the planned transaction will proceed. The molten sulphur handling facility is approximately 80% complete and should be operational by this summer. Given the related party nature of this transaction, regulatory and shareholder approval will be required along with appraisals and sponsor reports.

Management and the board are looking forward to having this valuable asset operating in Newmex.

Results for the twelve-month period ended September 30, 2001

Net earnings for the period were $54,900 on revenues of $1,237,937. The increase is largely due to the gold futures contract. Newmex has the option of receiving this income in cash or in gold.

Approximately $242,000 in exploration and development costs was written off as the underlying claims were permitted to expire.

The foreign exchange loss relates to Newmex's $US debt owed to EnerGCorp, Inc. that will now require more Canadian dollars to retire.

G & A costs have been strictly controlled in line with the Company's goal of generating profits.

The Company's assets have increased by more than $2.2 million (approximately 31%).

NEWMEX MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

HUDSON & COMPANY LLP
Chartered Accountants

INTERNATIONAL

AUDITORS' REPORT

To the Shareholders of
Newmex Minerals Inc.

We have audited the consolidated balance sheets of **Newmex Minerals Inc.** as at September 30, 2001 and 2000 and the statements of earnings and deficit and cash flows for the periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2001 and 2000 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Hudson & Company LLP

Calgary, Alberta
February 14, 2002

HUDSON & COMPANY LLP
Chartered Accountants

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HUDSON & COMPANY IS A MEMBER OF NEXIA INTERNATIONAL

NEWMEX MINERALS INC.

Consolidated Balance Sheet

As at September 30,		**2001**		2000
Assets				
Current				
Cash	**$**	**4,629**	$	22,498
Accounts receivable (Note 3)		**3,355,885**		1,334
Note receivable (Note 4)		**760,560**		-
Prepaid expenses		**13,292**		1,500
		4,134,366		25,332
Site reclamation bond		**32,541**		31,110
Long term investments (Note 5)		**1,815,654**		4,000,127
Capital assets – net		**836**		1,188
Mineral properties and deferred costs (Note 6)		**3,426,970**		3,129,148
	$	**9,410,367**	$	7,186,905
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 7 [d])	**$**	**63,244**	$	258,515
Notes payable (Note 7 [a])		**-**		1,000,000
Advances from parent company (Note 7 [a])		**4,448,070**		2,225,921
Advances from EnerGCorp, Inc (Note 7 [b])		**2,546,627**		1,606,643
Provision for future site restoration costs		**20,000**		20,000
Large corporation tax		**22,200**		
		7,100,141		5,111,079
Shareholders' Equity				
Share capital (Note 8)		**4,987,432**		4,807,932
Retained earnings (deficit)		**(2,677,206)**		(2,732,106)
		2,310,226		2,075,826
	$	**9,410,367**	$	7,186,905

Commitments and contingencies (Note 11)
Subsequent events (Note 15)

Approved on behalf of the Board

Peter J. Workum
President, Director

Theodor Hennig, C.A.
Vice President, Finance, Director

Consolidated Statement of Earnings and Retained Earnings

For the years ended September 30,		2001		2000
Revenue				
Future contract income		1,040,000		240,000
Interest		197,937		1,110
		1,237,937		241,110
Expenses				
Interest – Parent Company	$	634,177	$	76,324
Investor and public relations		20,742		13,551
Professional fees		18,235		25,535
Consulting fees		17,320		33,341
Office		7,517		4,956
Listing and filing fees		6,678		7,297
Travel		2,491		6,202
Insurance		631		-
Amortization		352		350
		708,143		167,556
Earnings before the under noted items		529,794		73,554
Abandonment, exploration and development expenditures		(241,933)		-
Gain (loss) on sale of mining properties		(98,465)		378,252
Foreign currency exchange loss		(112,296)		(16,835)
Earnings before income taxes		77,100		434,971
Large corporation tax		22,200		-
Net income for the period		54,900		434,971
Deficit, beginning of year		(2,732,106)		(3,167,077)
Deficit, end of year	$	(2,677,206)	$	(2,732,106)
Earnings per share - basic	$	0.01	$	0.06
- diluted	$	0.01		0.06
Weighted average number of common shares outstanding during the year - basic		7,622,365		7,251,075
- fully diluted		8,392,365		8,009,075

NEWMEX MINERALS INC.

Consolidated Statement of Cash Flows

For the years ended September 30,		**2001**		2000
Cash flows provided by (used in)				
Operating activities				
Net earnings	$	**54,900**	$	434,971
Items not affecting cash				
Amortization		**352**		350
Loss (gain) on sale of mining properties		**98,465**		(378,252)
Abandonment of mining project		**241,933**		-
Funds from operations		**395,650**		57,069
Decrease (increase) in accounts receivable	$	**(1,114,551)**	$	409
Increase in note receivable		**(760,560)**		-
Increase in prepaid expenses		**(11,792)**		(1,000)
Increase (decrease) in accounts payable and accrued liabilities		**(195,271)**		141,783
Increase in income taxes payable		**22,200**		-
Net change in non-cash working capital balances		**(2,059,974)**		141,192
Cash flows from (used in) operating activities		**(1,664,324)**		198,261
Investing activities				
Increase in investments		**(55,527)**		(1,760,127)
Advances to Hampton Court Resources Inc.		**-**		(2,240,000)
Mineral property expenditures		**(610,720)**		(755,088)
Proceeds on sale of mining properties		**-**		858,027
Increase in reclamation bond		**(1,431)**		(1,110)
Cash flows used in investing activities		**(667,678)**		(3,898,298)
Financing activities				
Increase (decrease) in note payable		**(1,000,000)**		1,000,000
Increase in advances from parent company		**2,222,149**		1,549,353
Increase in advances from EnerGCorp, Inc.		**939,984**		1,101,541
Common shares issued for cash		**152,000**		60,000
Cash flows from financing activities		**2,314,133**		3,710,894
Increase (decrease) in cash		**(17,869)**		10,857
Cash, beginning of year		**22,498**		11,641
Cash, end of year	$	**4,629**	$	22,498
Cash flow from operations per share – basic and fully diluted	$	**0.05**	$	0.01
Supplemental data:				
Interest paid	$	**Nil**	$	Nil

The Company recorded non-cash transactions as disclosed in Note 11.

1. NATURE OF OPERATIONS

The Company's principle business activity is the exploration for and acquisition of mineral properties with a view to bringing them into production in a reasonably short period of time. Recoverability of the costs of mineral properties is dependent upon various factors, including the existence of economically recoverable reserves, the ability to obtain necessary financing to complete development, future profitable operations from the properties, or proceeds of disposition. Pending profitable operations, or disposal of the Company's properties, existing working capital and debt or equity financing must provide cash requirements.

2. ACCOUNTING POLICIES

General

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which in all material respects conform to the international accounting standards.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Newmex Minerals USA Inc., Newmex Nevada Inc., and its 80% owned subsidiary Southern Gold (USA) Resources Inc.

Mineral Properties

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained, these costs are depleted using the unit of production method based upon estimated proven recoverable reserves. When deferred expenditures on individual properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written-off when the decision to abandon is made.

Earnings per share

Earnings per share amounts have been calculated and presented in accordance with the new recommendations of the Canadian Institute of Chartered Accountants whereby the treasury stock method is used to calculate diluted earnings per share. The new standard has been applied on a retroactive basis and has no impact on the amounts presented.

Diluted earnings per share considers the dilutive impact of the exercise of outstanding stock options and warrants as if the events had occurred at the beginning of the period or at a time of issuance, if later.

Investments

The accounts of all subsidiary companies are consolidated from their respective dates of acquisition. Other long-term corporate investments are carried at cost. When there is other than a temporary decline in value, these investments are written down to provide for the loss.

Impaired loans

The Company maintains allowances for the impairment of loans and investments. These allowances are determined by regular management reviews of each investment and loan to identify impairment. Specific allowances are recorded to reduce the carrying amount of investments and loans to their estimated realizable value.

2. ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements. Accounts specifically affected by estimates in these financial statements are accounts receivable, notes receivable, long-term investments, mineral properties and deferred costs, provision for future site restoration costs and income taxes payable.

Capital assets

Capital assets are recorded at cost. Amortization expense is computed as follows:

Equipment	straight-line over five years
Computer equipment	30% declining balance

Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for depreciation and amortization, which are translated at historical rates. Gains and losses on translation are included in income, except for foreign currency denominated monetary items with fixed or ascertainable lives extending beyond the end of the following fiscal year for which the gains or losses are deferred and amortized over the remaining lives.

Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net future tax asset or liability is to be included in income. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Effective October 1, 2000, the Company adopted retroactively without restating prior years, the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to accounting for income taxes. This change had no effect on financial statements assets, liabilities, operations or deficit.

Flow through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow through share arrangements are renounced to investors in accordance with tax legislation.

Stock option plan

The Company has a stock option plan as described in Note 8 c). No compensation expense is recognized for this plan when shares or share options are issued pursuant to the plan. Consideration paid for shares on exercise of the share options is credited to share capital.

3. ACCOUNTS RECEIVABLE

	2001	2000
Hampton Court Resources Inc.	$ 3,344,969	$ -
Other	10,916	1,334
	$ 3,355,885	$ 1,334

The account receivable from Hampton Court Resources Inc. is comprised of $2,000,500 in advances to enter into a future gold purchase contract, $1,280,000 in revenue from the future gold purchase contract, and $64,469 from interest earned on outstanding amounts due. The amount was received subsequent to year-end, see Note 15(a).

4. NOTE RECEIVABLE

	2001	2000
Note receivable from Golden Phoenix Minerals Inc. is $400,000 US Dollars plus accrued interest at 24% per annum, secured by a general security agreement against personal property assets, due on demand.	$ 760,560	$ -

Payment of the note receivable plus accrued interest is overdue. Subsequent to the year-end, the Company repossessed machinery and equipment. Management estimates the value of the machinery and equipment to be approximately $500,000 US. Full repayment of the note receivable is contingent upon the net proceeds to be received from future disposal of the repossessed assets.

5. LONG-TERM INVESTMENTS

	2001	2000
Golden Phoenix Minerals, Inc.	$ 1,784,638	$ 1,760,127
Hampton Court Resources Inc. (Note 3)	-	2,240,000
Skylark-Ranger Resources Inc.	31,016	-
	$ 1,815,654	$ 4,000,127

The investment in Golden Phoenix Minerals, Inc represents 14% of the issued and outstanding common shares. The Company also has warrants, which grant the right to purchase an additional 6,000,000 common shares at a price of $0.13 US dollars per share. The warrants expire in October 2002. If the warrants were exercised the Company would own approximately 24.6% of the issued and outstanding shares. At year-end, the trading value of Golden was $0.10 US per share (2000 - $0.11). Subsequent to year-end, the trading value has been as high as $0.16 US per share.

The investment in Skylark-Ranger Resources Inc. ("Skylark-Ranger") represents 500,000 common shares. Skylark-Ranger is a privately held company which is not subject to significant influence by the Company.

6. MINERAL PROPERTIES AND DEFERRED COSTS

i) *Privateer Mine, Zeballos, British Columbia*
The Company has a 100% interest in 46 claims and an on-site operational mill.

ii) *Chocolate Peak Claims, Grant County, New Mexico.*
The Company has a 100% interest in 213 claims. Twelve of the 213 claims are leased with an option to purchase and the remaining claims have been purchased or staked. The lease has an option to purchase with a twenty-year term starting June 23, 1997 and a total purchase price of $284,500 US. The lease contains accelerated annual lease payments to a maximum of $20,000 US commencing August 15, 2009 and early payout provisions upon the commencement of commercial production. Lease payments to date in the amount of $34,500 US have been charged to mineral properties and deferred costs.

6. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

iii) *Wild Irishman Claims, Grant County, New Mexico*
The Company has 100% interest in 24 claims.

iv) *Four Metals Copper Project, Arizona*
The Company has a 100% interest in 40 claims. Five of the 40 claims are leased with an option to purchase and the remaining claims have been staked. The lease has an option to purchase with a twenty-five year term starting October 15, 2000 and a total purchase price of $250,000 US dollars. The annual payments are $10,000 US for the first five years and $10,000 US indexed to the Consumer Price Index for the remaining twenty years. Annual payments to date in the amount of $10,000 US have been charged to mineral properties and deferred costs. If the Company decides to develop a mine on the property, the remaining balance on the purchase price must be paid.

v) *Cala Abajo, Puerto Rica*
The Company has an 80% interest in mining claims totaling 2,736 acres.

Mineral Properties and Deferred Costs are comprised of the following:

		2001		2000
Zeballos	$	**830,475**	$	617,019
Chocolate Peak		**1,485,060**		1,295,161
Wild Irishman		**243,532**		239,848
Four Metals Copper		**81,168**		7,065
Cala Abajo		**647,210**		610,113
Other		**139,525**		359,942
	$	**3,426,970**	$	3,129,148

7. RELATED PARTY TRANSACTION

a) The parent company, Proprietary Industries Inc., owns 73.3% of the issued and outstanding shares of the Company. Advances were made from Proprietary Industries Inc. to the Company that bear interest at a rate of 24% per annum on the first $2,000,000 and 10% per annum on the remaining balance owing. There are no fixed terms of repayment. During the year, interest expense in the amount of $634,177 (2000 - $76,324) was charged from the parent company.

b) EnerGCorp, Inc. is a related party by virtue of common management and is a subsidiary of Proprietary Industries Inc. The advances from EnerGCorp Inc., are non-interest bearing with no fixed terms of repayment and are payable in US dollars. The Company incurred a foreign exchange loss related to this debt for the current year in the amount of $108,496.

c) J. Prochnau & Co. is a related party by virtue of common management. During the year, the Company entered into a lease with an option to purchase agreement with J. Prochnau & Co. to acquire property at the Four Metal Mining Project. See Note 6 for terms and commitments of the lease agreement. At the end of the year, there is an amount due to J. Prochnau & Co. in accounts payable and accrued liabilities in the amount of $40,911 (200 - $Nil).

d) During the year, the Company made payments to directors or companies controlled by directors in exchange for professional services. The transactions were in the normal course of operations and were measured at the exchanged amount which was the amount established and agreed to by the related parties.
Payments were made to the following:

Theodor Hennig Professional Corporation	$	42,700
J.H. Bright		27,892
J. Prochnau & Co.		113,770

Of these amounts, $16,200 have been recorded as consulting fees, $10,000 as professional fees and $158,162 has been capitalized as mining exploration costs.

e) The Company operates from premises leased by the parent company, Proprietary Industries Inc.

8. SHARE CAPITAL

a) Authorized

Unlimited number of Common stock, without par value, voting

b) Issued

Common shares	**Number**	**Amount**
Balance at December 31, 1999	6,955,319	4,272,057
Issued on conversion of debt	475,875	475,875
Issued for settlement of current liabilities	75,000	60,000
Balance as at September 30, 2000	7, 506,194	4,807,932
Issued on 'flow-through' private placement	125,000	150,000
Issued on acquisition of mineral properties	27,500	27,500
Stock options	5,000	2,000
Balance as at September 30, 2001	7,663,694	$4,987,432

Pursuant to a flow-through share agreement dated December 13, 2000 the Company issued 125,000 common shares at a value of $1.20 per share. As a result of this issuance, the Company renounced $150,000 of exploration expenditures to the holders of the flow-through shares.

c) Share Options

The Company has adopted a stock option plan. Under the plan, options or stock awards may be granted to employees, including officers, of the Company and to other individuals who are not employees of the Company as may be deemed in the best interest of the Company by the board of directors or duly authorized committee. All options are issued to officers and directors of the Company with the exception of 5,000 at $0.83 per share, expiring May 23, 2002 which were issued to a third party.

Information regarding the stock option plans is summarized as follows:

Grant date	*Exercise price per share*	*Outstanding at Sept 30, 2000*	*Granted*	*Exercised*	*Expired*	*Outstanding at Sept 30, 2001*
October 18, 1995	$0.83	41,000	-	-	(41,000)	-
April 18, 1996	0.83	12,000	-	-	(12,000)	-
May 23, 1997	0.83	50,000	-	-	-	50,000
February 24, 2000	0.40	645,000	-	(5,000)	-	640,000
June 11, 2001	0.72	-	75,000	-	-	75,000
Total options		748,000	75,000	(5,000)	(53,000)	765,000

The weighted average exercise price of options outstanding is $0.45 (2000 - $0.48).

8. SHARE CAPITAL (Continued)

Expiry dates for the outstanding stock options at September 30, 2001 are as follows:

Number	*Expiry date*
50,000	May 23, 2002
640,000	February 24, 2002
75,000	June 11, 2003

d) Escrow Shares
The Company has 2,582,875 common shares held in escrow for Proprietary Industries Inc., the parent company. The shares may be released from escrow under the following terms:

i) one share released for each eighty-six cents ($0.86) of deferred expenditures incurred on the Chocolate Peak, Wild Irishman and Zeballos properties.

ii) All of the shares upon provision of a Level 4 Feasibility Study satisfactory to the Canadian Venture Exchange and supporting a value of the above properties of at least $3,932,750.

9. INCOME TAXES

The income tax provision reflects an effective tax rate that differs from the expected tax rate as summarized below:

		2001		2000
Expected tax expense at 42.9%	$	**33,076**	$	186,603
Write-off of exploration and development expenditures		**146,031**		-
Increase in (use of) operating losses carried forward		**(177,462)**		48,910
Gain from sale of mining properties		**-**		(164,086)
Use of mining property income tax pools		**-**		(71,869)
Other		**(1,645)**		442
Income tax expense from operations		**-**		-
Large corporation tax		**22,200**		-
Income tax provision	**$**	**22,200**	$	-

9. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to future tax assets at September 30, 2001 are presented below:

Future tax assets:		
Mining properties and deferred costs	$	354,506
Capital assets		4,706
Operating loss carryforwards		503,514
Other		109
Total gross future income tax assets		862,835
Valuation allowance		(862,835)
Net future tax assets	$	-

A full valuation allowance has been recorded against the above future tax assets, as the Company cannot demonstrate that it is more likely than not that the assets will be realized.

As at September 1, 2001, the Company has accumulated non-capital loss carryforwards for tax purposes of approximately $1,173,692, which can be applied to reduce income taxes otherwise payable, giving rise to a future tax asset of approximately $509,148.
These losses are due to expire as follows:

2003	181,704
2004	186,507
2005	294,048
2006	398,686
2007	112,747

The Company also has income tax pools in excess of related carrying values per the financial statements of approximately $4,253,324 (2000 - $3,566,058). No recognition has been given in these financial statements to the potential tax benefits associated with these losses and pools.

10. STATEMENT OF CASH FLOWS

The Company had the following non-cash transactions:

a) During the year ended September 30, 2001 the Company acquired mining property in exchange for 27,500 common shares issued from treasury at a value of $1.00 per share

b) During the year ended September 30, 2000 the Company settled debt in the amount of $475,875 and current liabilities of $60,000 in exchange for issuance of 475,875 and 75,000 common shares respectively.

11. COMMITMENTS AND CONTINGENCIES

Mineral leases with an option to purchase

The Company has entered into two mineral leases with options to purchase. Additional details of each lease are reported in Note 6 – Mineral Properties and Deferred Costs. In each lease, the Company is committed to paying annual lease payments until the purchase price is paid out, the lease term expires or until the Company decides to terminate the lease and abandon the claims. Lease payments in US dollars due in the next five years are as follows:

2002	$ 19,500
2003	21,000
2004	22,500
2005	24,000
2006	25,500

Production Royalty Payments

a) Subject to the Purchase Agreement of October 15, 2001, to acquire 12 crown granted mineral leases at Zeballos, British Columbia, the Company is committed to the following:

   i) a 1% net smelter royalty, to a maximum of $250,000, payable from gold production to Newhawk Gold Mines Limited.

   ii) 10% of gross revenues from the sale of timber from properties payable to John Prochnau & Company.

b) Subject to the Option to Purchase Agreement of October 15, 2000 to acquire five claims at the Four Metals Copper Project, Arizona, the Company is committed to paying 2% gross revenue royalty to the purchasee.

c) On March 28, 2001, the Company announced that it had agreed in principle to purchase Proprietary Industries Inc.'s ("Proprietary") 70% interest in the shares of Sulphur Corporation of Canada Inc. ("Sulphur Corp"). The purchase price would be at Proprietary's book value of $2,100,000 and consideration would be in the form of cash, Newmex shares or debt instruments, as appropriate. Sulphur Corp. is constructing a Sulphur and transportation terminal in Prince Rupert, British Columbia. The transaction has not been finalized and is subject to a number of conditions being met including regulatory approval.

12. FINANCIAL INSTRUMENTS

a) Credit Risk

   Credit risk arises from the possibility that the entities to which the Company provides services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

b) Interest Rate Risk

   Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates used on their financial instruments

12. FINANCIAL INSTRUMENTS (continued)

c) Fair Values

The Company's financial instruments comprise cash, accounts receivable, deposits, accounts payable and accrued liabilities, note payable and advances from Proprietary Industries Inc., and EnerGCorp Inc. The fair values of these financial instruments approximate their carrying values due to the short-term nature of the instruments. The fair value of note payable to the parent company approximates its carrying value due to the rate of interest charged being close to the market rate of interest.

13. SEGMENTED INFORMATION

The Company is currently involved in one significant industry segment, being the exploration and development of mineral properties in the United States, Canada and Puerto Rico. The United States operations have identified assets of $4,494,483 (2000 - $3,662,143), Canadian operations have identifiable assets of $4,268,674 (2000 - $2,914,649) and Puerto Rico operations have identifiable assets of $647,210 (2000 - $610,113).

14. COMPARATIVE FIGURES

The comparative figures for the year have been reclassified to conform with the financial presentation adopted for the current year.

15. SUBSEQUENT EVENTS

a) On November 1, 2001, the Company received payment of $3,357,889 from Hampton Court Resources Inc. Under a separate agreement, the Company's parent, Proprietary Industries Inc., advanced these funds to Hampton Court Resources Inc. The Company then repaid amounts due to Proprietary equivalent to the amount received from Hampton Court.

b) In November 2001, the Company repossessed machinery and equipment from Golden Phoenix Minerals, Inc. under terms of a security agreement for failure to repay a note receivable. (See Note 4). As the operations of Golden are dependent on the utilization of the machinery and equipment, the Company has allowed them to continue to utilize the machinery and equipment as a means to protect their investment in Golden.

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